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UNITED NATIONS POPULATION FUND

ADMINISTRATIVE AND OPERATIONAL SUPPORT COSTS REIMBURSED TO UNFPA

Report of the Executive Director

1. This report has been prepared in response to decision 98/22, in which the Executive Board accepted, as an interim measure, the proposed increase in administrative and operational support costs (AOS) from 5 per cent to 7.5 per cent with the proviso that the Executive Director undertake a study to quantify the level of charges for AOS and report back to the Board in the following year for a final decision on the AOS rate. In the discussions leading up to that decision, several delegations expressed support for the proposed increase, while pointing out that further analysis was needed to justify the increase.[1] The Advisory Committee on Administrative and Budgetary Questions (ACABQ), commenting on UNFPA's review of its multi-bilateral trust-fund arrangements (as contained in document DP/FPA/1998/11), stated that it had no objections to the proposed increase in AOS reimbursed to UNFPA from 5 per cent to 7.5 per cent (DP/FPA/1998/14). However, it recommended that the matter be kept under review and be resubmitted to the Committee when updated cost-measurement information became available.

[1] DP/1999/1, Report of the third regular session 1998 of the Executive Board of UNDP/UNFPA.

2. In order to develop a clear picture of administrative and operational support costs within the context of UNFPA execution, this report will do the following: briefly review the evolution of UNFPA support-cost arrangements; tap into the experiences of partner organizations within the United Nations; define the major tasks that comprise AOS both at UNFPA headquarters and in the field; and provide a staff workload analysis that will quantify the cost of UNFPA execution. Taking into consideration specific country and headquarters experience, the accompanying analysis will provide support that the current level of AOS reimbursement to UNFPA of 7.5 per cent for execution of co-financing[2] trust-fund activities recovers a reasonable level of the costs of execution and, as a result, further limits the adverse impact on UNFPA core resources.

I. BACKGROUND

3. This report addresses the issue of the adequate level of cost recovery for "substantive operational support" or administrative and operational support services provided by UNFPA in the execution of co-financing trust-fund projects. It does not address the recovery of costs associated with overall managerial support to the administration of trust funds, which was the subject of document DP/FPA/1998/11, submitted to the Executive Board at its third regular session 1998. Document DP/FPA/1998/11 provided a clear distinction between costs associated with administrative and operational support (AOS) versus those associated with managerial support services (MSS). It also proposed a separate rate of reimbursement for MSS costs (5 per cent), which was endorsed by the Executive Board in decision 98/22. And while the recovery of MSS costs is applicable to all co-financing trust funds, UNFPA recovers AOS costs only when acting as the executing agency for co-financing trust-fund projects.

4. The administrative and operational costs that are to be reimbursed through AOS can be defined as the necessary and inherent services provided by the executing agency, which, by their nature, cannot be explicitly identified and charged as direct costs to the project. These costs include both variable and fixed elements, meaning that the level of the different costs associated with project execution may or may not vary with the volume of trust-fund activity. It should be noted that the inclusion of certain fixed costs in the cost-recovery methodology for non-core resources has implications for the financial structure of the organization. As such, costs related to the overall management and administration of the organization are excluded from consideration in the definition of AOS.

5. Over the past several years, some members of the Executive Board have expressed concern that regular resources appear to be subsidizing co-financing activities. Furthermore, the governing bodies of many United Nations organizations have highlighted the importance of cost recovery, especially for non-core activities. Therefore, UNFPA took the opportunity to review the

[2] UNFPA has introduced the term "co-financing" which replaces the old terminology of "multi-bilateral" and also includes the resource mobilization strategy of cost sharing. In the context of this report, the term co-financing trust funds refers to what had been previously termed multi-bilateral resources.

documented studies of several other agencies, including UNDP, UNICEF and FAO, in an attempt to learn from their efforts and to harmonize, to the extent possible and feasible, the methodology to be used by UNFPA.

6. The Fund's Report on proposed UNFPA successor arrangements for agency support costs (DP/1991/35) established the framework for reimbursing agencies for the services at headquarters and the regional level necessary for the implementation of UNFPA country activities. These services comprise what UNFPA now refers to as administrative and operational support costs. The report stated that, in the spirit of partnership, UNFPA would reimburse up to 50 per cent of these costs to the agencies based on the cost-measurement study that UNDP was then undertaking jointly with a number of United Nations agencies and organizations.[3] As a result, the Governing Council, in decision 91/37, authorized the Executive Director to reimburse executing agencies at a rate of 7.5 per cent.

7. In decisions 95/23 and 96/31, the Executive Board established the successor programming arrangements for UNDP. These decisions confirmed the continued relevance and importance of the "tripartite" principles underlying support-cost arrangements.[4] The reimbursement of administrative support costs within and throughout the United Nations system is based on the premise that each agency benefits in some respect from the collaboration of programme funding and execution such that the support-cost arrangements represent a sharing of the total cost of administrative and operational support services.

8. Several system-wide and agency-specific measurement studies over the years have supported this premise in that support costs reimbursed to executing agencies do not fully cover all of the costs of project execution. Of the organizations reviewed, FAO utilizes the most detailed and intensive approach. Each year, FAO prepares a "Work Measurement Survey" resulting in a "Cost Measurement System", the principal objective of which is to reflect "full cost accounting wherein all indirect overheads are distributed over the productive activities of the Organization" ("Summary of Purpose and Methodology for the Work Measurement Survey and the Cost Measurement System", FAO, 1997). However, other organizations rely on desk studies and field missions every few years to review, substantiate and/or update their current support-cost arrangements.

9. It is important to note some of the limitations posed by differences in structure and procedures. Several organizations incorporate the use of interest earned on "supplementary funds" as part of their cost-recovery programme. However, UNFPA's flexibility in this area is restricted somewhat by its Financial Regulations and Rules. Furthermore, a few organizations include programme support along with management and administrative services in their standard rate of

[3] See paragraphs 58–60 of document DP/1991/35, which was presented to the Governing Council at its thirty-eighth session (3–21 June 1991).

[4] The principle of shared tripartite responsibility refers to the partnership between the Government, executing agency and UNDP in contributing to the costs of operating technical cooperation activities in furthering the development objectives of the country.

cost recovery. As noted above, UNFPA has a separate rate for substantive support (AOS) and for managerial support services (MSS).

10. In order to have an overview of the varying rates used among the organizations, UNFPA contacted a number of United Nations agencies and organizations[5] involved in project funding and execution, and requested advice regarding their current policies for recovering AOS costs. Most United Nations agencies that execute projects have established a standard rate of recovery of 13 per cent, which was based on the cost-measurement studies undertaken by UNDP. However, in an effort to make its support-cost arrangements more uniform and to facilitate administration of projects, UNDP replaced the cluster rates that applied to different project components and the 13 per cent rate for small agencies with a flat rate of 10 per cent. Due to the specialized nature of their activities and organizational structures, UNICEF and WFP have calculated rates based on different standards and assumptions.[6]

11. Although most agencies have established a standard rate for the majority of activities involved in project execution, many have allowed flexibility in the negotiation of the rate under various circumstances. It is UNFPA's aim to develop and maintain a simple and transparent approach to identifying and quantifying the activities or services that give rise to support costs. Although levels of support provided by UNFPA as executing agency may vary depending on size and complexity of projects as well as the size and capacity of the country office, UNFPA has opted to maintain a uniform AOS percentage to be applied to all trust-fund projects executed by UNFPA to facilitate administration in both the country offices and headquarters divisions. In addition, UNFPA will systematically review the recovery rate periodically to ensure that it continues to adequately cover the indirect costs associated with UNFPA execution as agreed by the Executive Board.

II. DEFINITION AND ESTIMATION OF PROPORTIONATE COSTS

12. UNFPA does not have a separate support structure to manage co-financing trust funds. Therefore, when UNFPA chooses to act as executing agency for a co-financing trust-fund project, the country office and many divisions at headquarters must absorb additional work in support of the project. Although direct costs are built into the project budget (e.g., project personnel, equipment and supplies, travel, etc.), there are indirect support costs associated with assuming the administrative function of project execution. These costs are recovered, to some extent, in the AOS rate. In general, although the country offices or headquarters divisions responsible for the execution of the project are most affected by increasing workloads, there is also additional work for the management and administrative and programme support functions at headquarters.

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[5] Agencies contacted include UNDP, UNOPS, UNICEF, WFP, FAO, WHO, ILO, the International Maritime Organization (IMO), and the International Civil Aviation Organization (ICAO).

[6] UNICEF charges 5 per cent on supplementary resources and retains any interest earned on balances held. WFP will be replacing its current multi-rate system with a standard rate for all types of project activities beginning in the year 2000.

13. UNFPA developed a survey to assist in the identification of the main tasks associated with project execution. This survey was distributed to the geographic and technical divisions at headquarters, as well as to those country offices that have had the largest proportion of UNFPA execution within their co-financing portfolios over the past several years. In addition to identifying the activities associated with project execution, the participants in the survey were requested to provide their general estimation of workload levels for the various staff involved in project execution. The rate of response to the survey was nearly 100 per cent, and UNFPA received valuable insight into the requirements of project execution.

14. AOS was defined in the survey as the services at headquarters and in the field that are necessary for the effective execution of project activities. In line with this definition, administrative activities may include: recruitment and placement of personnel; procurement of equipment; servicing of fellowships; budget and financial management; and external and internal audit management. Operational activities may include: guidance and supervision of personnel; monitoring of workplans and budgets; periodic reporting; formulation and evaluation of training activities; and subcontract negotiations and monitoring. Table 1 provides a composite of the responses received in the survey. UNFPA found that, of the many studies that have been carried out by various organizations, there is a general consensus of the composition of activities comprising administration and operational support. The respondents emphasized the fact that the workload of some tasks varies throughout the project cycle and that some projects or components may be more "expensive" to administer than others. However, like many of its partner organizations, UNFPA recognizes that the additional costs would be compensated by components or projects requiring less input or effort, and thus has chosen to establish a rate of recovery that would be applicable to all instances of UNFPA execution.

Table 1
Workload Analysis of Administrative and Operational Support Services provided by UNFPA as Executing Agency

Main Activity/Tasks	COUNTRY OFFICE	HEADQUARTERS
1. Project personnel administration • Develop Terms of Reference • Candidate identification and selection • Guidance and supervision • Payroll and benefits administration	DR/AR FA NPO	OPT PO
2. Equipment and supply procurement • Specifications • Purchase order • Equipment maintenance • Reporting • Final disposal	NPO DR/AR FA	PrO CRC
3. Subcontract management • Develop Terms of Reference • Candidate identification and selection • Contract/Letter of Agreement • Monitoring	NPO DR/AR FA	PO
4. Training administration • Design • Logistics • Review/Evaluation	DR/AR NPO FA	PO OPT
5. Monitoring • Communication and reporting	REP/DR/AR NPO	PO
6. Project financial management • Funds administration (allocations and disbursements) • Information technology • Financial reporting	REP/DR/AR NPO FA	PO FB
7. Substantive review, evaluation and reporting • Communications	REP/DR/AR	EO PO

KEY:

Country office

REP - UNFPA Representative
DR - Deputy Representative
AR - Assistant Representative
NPO - National Programme Officer
FA - Finance and/or Administrative Assistant

Headquarters

PO - Programme Officer
PrO - Procurement Officer
EO - Evaluation Officer
CRC - Contracts Review Committee
FB - Finance Branch
OPT - Office for Personnel and Training

15. In further identifying activities and costs associated with the substantive operational support UNFPA provides to co-financing activities, a workload analysis was performed based on information from the same country offices used in the survey process (see para. 13), as well as headquarters divisions involved in project execution. The participants were requested to quantify the proportionate amount of time spent by each level of staff on core activities as compared to co-financing activities. The workload analysis was further quantified by applying a global standard cost to each staff level and calculating the weighted cost of co-financing activities. The study confirmed the common notion that the actual costs of project execution far exceeded the current 7.5 per cent reimbursement rate, let alone the previous 5 per cent rate.

16. The survey and workload analysis, which were based on country projects as opposed to interregional projects, show that the cost of project execution for UNFPA is approximately 15 per cent to18 per cent, depending on the complexity and substantive nature of the project, as well as the size of the country office. The costs included in the calculation were limited to country office and geographic division personnel costs. In addition, the Fund's experience with a large-scale regional project that identified both direct and indirect AOS costs generally confirms the country-project rates of 15 per cent to 18 per cent. During the discussions at the third regular session of the Executive Board in September 1998, delegations agreed that there should be full cost recovery for AOS (DP/1999/1). However, for the reasons stated in paragraphs 4 and 7 above, and as has been the preferred methodology of other organizations within the United Nations system, the workload study did not include an allocation of indirect "fixed" costs such as office space, utilities, information technology, equipment and organizational administration.

17. The combined survey and workload study completed by UNFPA in responding to Executive Board decision 98/22 attempts to arrive at an estimation of the major indirect costs of project execution. However, for many of the reasons noted above, the support-cost rate cannot in all instances be expected to fully recover all costs associated with the administration and operations of projects. Therefore, UNFPA acknowledges that the "unrecovered", or balance of, administrative and operational support costs incurred as an executing agency is absorbed by the Fund's biennial support budget. In light of this, UNFPA will continue to be selective in its decision to execute co-financing trust-fund projects, ensuring that UNFPA has a clear comparative advantage in the substantive or operational characteristics of the project it is executing. In this way, UNFPA will limit the impact on the workload of country office and headquarters staff, as well as mitigate the financial implications to core resources while taking advantage of the benefits to the regular programme that will be derived from the support and execution of these co-financing projects.

18. It is important to underscore the fact that core resources remain the foundation of UNFPA funding. Yet, co-financing provides a means of attracting additional resources in support of UNFPA's mandate and activities. A concern expressed by some delegations has been that the increase in AOS would reduce the availability of co-financing resources. UNFPA recognizes the

need to balance cost recovery with the ability to be competitive in attracting additional resources for quality programmes. Therefore, UNFPA will carefully monitor the situation, both at headquarters and in the field, to determine the effects of the increase in AOS for UNFPA execution. Reviewing the limited experience gained thus far in 1999 shows that UNFPA has successfully negotiated and signed 22 agreements for approximately $8.5 million, and there are another 10 agreements that are pending.

III. CONCLUSION

19. This report has endeavoured to address Executive Board decision 98/22 through the following:

(a) A brief review of the history of the evolution of support-cost reimbursement;

(b) An overview of the policies and methodologies of partner organizations;

(c) A detailed description of the activities that comprise administrative and operational support services;

(d) A summary of the findings of a survey and workload analysis regarding the quantification of indirect costs associated with UNFPA execution of co-financing trust-fund projects.

20. By necessity, this report has been narrowly focused on the issue of the level of reimbursement of AOS to UNFPA as an executing agency. It should be noted that, in areas other than procurement, UNFPA execution represents a relatively small portion of co-financing project execution. Hence, the subsidization of co-financing activities by core resources is relatively small and should be viewed in the spirit of partnership and "tripartite" principles underlying support-cost arrangements. In conclusion, UNFPA believes that adequate justification exists for the current rate of reimbursement for AOS of 7.5 per cent and that such a rate further limits the adverse impact on UNFPA core resources. UNFPA will continue to keep under review the rate of reimbursement for AOS, as well as the level and content of UNFPA execution. UNFPA will report back to the Executive Board on the impact, if any, on resource mobilization under the new AOS rate.

IV. RECOMMENDATION

21. The Executive Director recommends that the Executive Board provide a final endorsement for the standard rate of 7.5 per cent for reimbursement of administrative and operational support costs for UNFPA execution of co-financing trust-fund activities.

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UNITED NATIONS POPULATION FUND

REVISION OF FINANCIAL REGULATIONS

Report of the Executive Director

1. The Financial Regulations of the United Nations Population Fund were adopted by the Governing Council at its thirtieth session, as contained in paragraph 3 of decision 83/17 of 24 June 1983. The regulations were subsequently amended by decisions 84/21, 90/36, 92/33 and 93/29, at the Council's thirty-first, thirty-seventh, thirty-ninth, and fortieth sessions, respectively, and by decisions 97/7 and 98/21 at the Executive Board's second and third regular sessions, 1997 and 1998, respectively. The Executive Director hereby submits to the Executive Board, for its approval, revisions to existing regulations, as well as proposed new regulations. These revisions are the result of an overall review of the Fund's Financial Regulations as part of the development of a comprehensive UNFPA Policies and Procedures Manual.

2. The revisions also include an addition to the regulations as they pertain to procurement in order to reflect the agreements reached by the Procurement Working Group under the Common Services Task Force established as part of the Secretary-General's reform programme.

3. The proposed revisions to the financial regulations are detailed below. For ease of identification, revisions and additions to the text are shown in bold typeface and deletions are shown with a line through the text to be deleted. For ease of reference, the full text of the regulations cross-referenced in this report are provided in an annex to this report.

/...

Regulation 2.1: For the purposes of the Financial Regulations of UNFPA, the following definitions of the main entities involved in activities of UNFPA shall apply:

(j) "executing agency" shall mean an entity to which the Executive Director has entrusted the ~~implementation~~ **overall management** of UNFPA assistance to a project **or part of a project (reference Regulation 2.2P(v)), along with the assumption of responsibility and accountability for the effective use of UNFPA resources and the delivery of outputs, and** shall include the following:

(i) a recipient Government or Governments;
(ii) organizations of the United Nations system, i.e., the United Nations, the Specialized Agencies, the International Atomic Energy Agency and other organizations that are or become part of the United Nations system;
(iii) a governmental or intergovernmental institution or agency not part of the United Nations system;
(iv) the UNFPA itself;
(v) a non-governmental organization.

(k) "implementing agency", if other than the executing agency, shall mean an entity engaged by and accountable to the executing agency to provide and deliver programme/project outputs.

Regulation 2.2: For the purposes of the Financial Regulations of UNFPA, the following definitions in respect of specific terms used shall apply [in alphabetical order].

A

(i) "~~agency~~ **administrative and operational** support costs" shall mean the expenses ~~incurred by~~ **reimbursed to** an executing agency as a result of its administration of programme activities financed from UNFPA funds;

B

(i) "biennial support budget" shall mean the budget covering a period of two calendar years to cover the costs of Programme support and **Management and** administration services ~~costs~~ of UNFPA.

C

(ii) "co-financing" shall mean a resource mobilization modality through which contributions may be received from Governments or intergovernmental organizations,

United Nations agencies, NGOs, foundations or private-sector organizations in support of specified purposes consistent with the policies, aims and activities of UNFPA. These contributions may be in the form of cost-sharing or trust funds and shall be considered over and above the regular resources available for programmes.

(iv) "contribution" shall mean cash or in-kind resources provided by a Government, by a governmental or intergovernmental institution, by United Nations agencies, or by non-governmental sources, including civil-society organizations and entities from the private sector, as well as individuals. Contributions cover programme costs as well as programme support and management and administration costs.

(ix) "country programme" shall mean the programme of UNFPA technical assistance in a particular country, prepared by the Government of that country, in collaboration with UNFPA, indicating the proposed use of UNFPA resources towards the achievement or furtherance of selected national reproductive health and population goals during the period covered by the country programme.

F

(i) "fully funded" shall mean that funds **in support of a project/programme** are available in the form of cash on hand or an irrevocable letter of credit **prior to authorization of commitments through allocation of funds**;

I

(i) "implementation" shall mean the procurement and delivery of programme/project inputs and their conversions into programme/project outputs.

(ii) "intercountry" when used with reference to a programme activity or project shall mean regional **or** interregional ~~or global~~, as the case may be.

M

(i) "management and administration" of UNFPA shall mean the activities of the organizational units whose primary function is the maintenance of the identity, direction and well-being of UNFPA. This would include the units that carry out the functions of executive direction, organizational policy and evaluation, external relations, information, administration and audit.

(ii) "managerial and support services" shall mean the full range of management and administrative support provided directly to develop, oversee and monitor projects

financed by co-financing contributions in accordance with the provisions of the funding agreement.

N

(i) "net budget" shall mean the biennial support budget that reflects estimates of payments to be received which offset, in whole or in part, the related gross budget estimates.

O

(ii) "other resources" shall mean the resources of UNFPA, other than regular resources, which are received for a specific programme purpose consistent with the mandate of UNFPA and for the provision of specific services to third parties.

P

(ii) "programme activities" shall mean activities directly associated with the planning, programming and implementation of UNFPA assistance through country, regional, **and** interregional ~~and global~~ **programmes**/projects and shall be distinguished from activities of a programme support and ~~administrative services~~ **management and administration** nature;

(iii) "programme" within the context of the form of presentation of the biennial support budget shall mean ~~a subdivision of the budget~~ **the direct inputs needed to achieve the goals of a specific project or programme for development cooperation. This may typically include experts, support personnel, supplies and equipment, subcontracts, cash assistance and individual or group training**;

(iv) "programme support ~~and administrative services~~" shall ~~include those activities that are undertaken by UNFPA to provide management, technical, administrative, financial and logistical support to its programme activities~~ **mean organizational units whose primary function is the development, formulation, delivery and evaluation of UNFPA's programmes. This would include units that provide backstopping of programmes either on a technical, thematic, geographic, logistical or administrative basis;**

(v) "project" shall mean a separately identified undertaking relating to population matters assisted by UNFPA **that forms part of a sub-programme and/or programme. References to "projects" throughout these regulations and rules shall mean component project unless it is a stand-alone project;**

(vi) "project document" shall mean the formal document, including revisions thereof, covering the agreed arrangements for the implementation of the project ~~which includes, inter-alia, a statement of the immediate and long range objectives of the project, a project work plan, a budget for UNFPA assistance to the project, pertinent background and supporting data~~.

R

(i) **"regular** resources" **shall mean resources available to UNFPA that are comingled and untied.** These shall include pledges of voluntary contributions, other governmental or intergovernmental payments to UNFPA, ~~donations~~ **other contributions** from non-governmental sources, related interest earnings and miscellaneous income.

Regulation 4.3: Voluntary contributions may be pledged either on an annual or **multi-year basis** ~~or for a number of years~~.

~~Donations~~ Other contributions

Regulation 4.9: ~~Donations~~ **Contributions other than those indicated in Financial Regulation 4.1** ~~from intergovernmental and non-governmental sources~~ may be accepted by UNFPA and utilized for the general support of UNFPA or for purposes consistent with those of UNFPA.

Regulation 4.10: Where the purpose of a ~~donation~~ **contribution as described in Regulation 4.9** is the general support of UNFPA and no limitations are imposed by the donor as to its use, the ~~moneys~~ **resources** received shall be ~~treated as donations to UNFPA for~~ credited to the UNFPA Account, as defined in Regulation 2.2 U(i). ~~Donations~~ **Other contributions** proposed for specific purposes shall be treated under the provisions for **cost-sharing in Article IV or** Trust Funds in Article V.

Regulation 4.11: ~~Individual donations of a value in excess of $100,000 shall be accepted only with the prior approval of the Executive Board.~~ **The Executive Director shall report annually to the Executive Board on material contributions received from non-governmental sources.**

Regulation 4.12: The Executive Director is authorized to enter into ~~project, programme and/or~~ cost-sharing agreements, ~~including third party cost-sharing agreements~~, **as defined in Regulation 2.2C(viii)**, provided such cost-sharing arrangements have been accepted by the recipient country or countries, subject to such principles as the Executive Board may establish.

Regulation 5.1: Trust Funds may be established by the Executive Board or by the Executive Director for specified purposes consistent with the policies, aims and activities of UNFPA. Trust Funds which directly or indirectly involve additional financial liability for UNFPA shall be

established only by the Executive Board. **These** Trust Funds ~~established by the Executive Director~~ shall be reported in detail to the Executive Board through the Advisory Committee.

Regulation 5.5: The Executive Director may require reimbursement of managerial and support services costs associated with the management and administration of trust funds up to the amount authorized by the Executive Board.

Regulation 8.2: Under such limits as the Executive Board may from time to time prescribe, the Executive Director is authorized to approve UNFPA assistance to country, regional, **and** interregional ~~and global~~ projects.

Regulation 8.4: Arrangements for the establishment and financing of a ~~country~~ project shall be subject to the written agreement of the requesting ~~Government~~ **party(s)**and UNFPA. Arrangements for project implementation shall be subject to the written agreement of the requesting ~~Government~~ **party(s)**, the executing agency where appropriate and UNFPA. Details of such arrangements shall be specified in the project document which shall also contain such provisions of a general nature as may be deemed necessary to ensure the satisfactory implementation of the project.

Regulation 8.5: Consistent with the overall management responsibility of Governments for their projects, the Executive Director shall consult the requesting Government or Governments concerning the implementation of UNFPA's assistance to a project. **In** keeping **with** ~~in mind~~ the principle of **national capacity building, recipient** Governments **or national non-governmental organizations** ~~execution,~~ must be given first consideration in the selection of an executing agency ~~shall normally be given to organizations of the United Nations system~~. Such selection shall be subject to the agreement of the requesting Government or Governments.

Regulation 8.6: Under conditions established by the Executive Board, the Executive Director is also authorized, subject to the agreement of the requesting Government**(s)** ~~or Governments~~**, to appoint as executing agency an entity other than the recipient Government(s) and as defined in Regulation 2.1(j). The Executive Director may also contract for services of other agencies, private firms or individual experts in the implementation of UNFPA-funded projects.** ~~to contract for the services of other agencies, private firms or individual experts in the execution of projects and to assign projects to a governmental or intergovernmental institution or agency not part of the United Nations system, or to UNFPA itself for execution.~~

Regulation 8.7: **The Executive Director may reimburse** executing agencies **as defined in Regulation 2.1(j)** ~~authorized by the Executive Board may be reimbursed~~ for their support costs up to levels determined by the **Executive Board** ~~Governing Council~~.

Regulation 14.1: The Executive Director~~, in consultation with the Administrator,~~ shall:

(a) Establish detailed financial rules and procedures in order to ensure effective financial administration and the exercise of economy, and circulate the Financial Rules to Members of the Executive Board for information at least 30 days before they become effective;

(b) Cause all payments to be made on the basis of supporting vouchers and other documents which ensure that the services or goods have been received, and that payments have not previously been made;

(c) Designate the officers who may receive moneys, incur obligations or commitments and make payments on behalf of UNFPA;

(d) Maintain an internal financial control which shall provide for an effective current examination and review of financial transactions in order to ensure:

(i) The regularity of the receipt, custody and disposal of all funds and other financial resources of UNFPA;

(ii) The conformity of expenditures and commitments with the allocations, appropriations or other financial provisions decided upon by the Executive Board;

(iii) The economic use of the resources of UNFPA.

Regulation 14.4: The Executive Director may, after full investigation, authorize the writing-off of cash, stores and other assets, provided that a statement of all such amounts written off shall be submitted to the Board of Auditors with the accounts. **The Executive Director may establish from time to time an amount below which formal write-off is not required. Such amounts shall, for administrative efficiency, be charged directly to the relevant allotment/budget line.**

Regulation 14.9: Management of Property

The Executive Director is responsible and accountable for managing the property of UNFPA effectively and efficiently in furtherance of its mandate and activities.

a) The management of property includes all actions necessary for its receipt, custody, maintenance and disposal;

b) The Executive Director may delegate authority, as appropriate, for such management of property.

Regulation 17.2: The Executive Director shall ensure that ~~Governments which are~~ executing agencies~~, and other parties selected for project implementation under Regulation 8.6~~, shall require their auditors to follow, to the extent feasible, the audit principles and procedures prescribed for the United Nations with respect to funds obtained from UNFPA, and shall submit audit reports ~~biennially~~ **periodically as required by the Executive Director** together with the reports specified in the project document and under Article XV of these Regulations.

ANNEX

UNFPA Financial Regulations cross-referenced in this report

Regulation 2.1: For the purposes of the Financial Regulations of UNFPA, the following definitions of the main entities involved in activities of UNFPA shall apply:

(j) "executing agency" shall mean an entity to which the Executive Director has entrusted the overall management of UNFPA assistance to a project or part of a project (reference Regulation 2.2P(v)), along with the assumption of responsibility and accountability for the effective use of UNFPA resources and the delivery of outputs, and shall include the following:

(i) a recipient Government or Governments;
(ii) organizations of the United Nations system, i.e. the United Nations, the Specialized Agencies, the International Atomic Energy Agency and other organizations that are or become part of the United Nations system;
(iii) a governmental or intergovernmental institution or agency not part of the United Nations system;
(iv) the UNFPA itself;
(v) a non-governmental organization.

(as revised in this document)

Regulation 2.2: For the purposes of the Financial Regulations of UNFPA, the following definitions in respect of specific terms used shall apply.

C

(viii) "Cost sharing" shall mean an arrangement by which the costs of projects that are normally charged to UNFPA regular resources, including the reimbursement of the related administrative and operational service costs paid to executing agencies, are covered in full or in part by a contribution or contributions from the recipeint Government, or from one or more Governments other than the recipient Government, or from an organization or organizations of the United Nations system, or from inter-governmental institutions or agencies not part of the United Nations system. Such arrangement may be made on the following basis:

- Project cost sharing whereby the contribution relates to a specific project;
- Programme cost sharing whereby the contribution relates not to a specific project but to all or several projects in a recipient country or region; and

Third party cost sharing, which can be either project or programme cost sharing, whereby the contribution is paid by one or more entities other than the recipient Government.

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(v) "project" shall mean a separately identified undertaking relating to population matters assisted by UNFPA that forms part of a sub-programme and/or programme. References to "projects" throughout these regulations and rules shall mean component project unless it is a stand-alone project; (as revised in this document)

Regulation 4.1: Voluntary contributions may be accepted by UNFPA from Governments of Member States of the United Nations, of the Specialized Agencies or of the International Atomic Energy Agency.

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UNITED NATIONS POPULATION FUND

Follow-up to the Report of the Board of Auditors for 1996-1997: Status of Implementation of Recommendations

1. Pursuant to decision 97/2 taken by the Executive Board at the first regular session of 1997, the Executive Director wishes to bring to the attention of the Executive Board a status report on follow-up measures to the recommendations contained in the Report of the United Nations Board of Auditors on the United Nations Population Fund for the biennium ended 31 December 1997 (A/52/5/Add.7). The Auditors' review concerns the efficiency of financial procedures, internal financial controls and in general the management of UNFPA. The management issues examined by the Board of Auditors during 1996-1997 included cash management, property management, and human resources.

2. The table below provides an update on the steps taken to address these concerns and issues. The Executive Director has reported to the Executive Board on this item at the first regular session in 1999 (see DP/FPA/1999/2). She has also addressed several of these issues in the annual report on internal audit and oversight activities (see DP/FPA/1999/8), submitted to the Board at the annual session in June 1999.

Recommendation

3. The Executive Board may wish to take note of the progress report provided by the Executive Director on the measures that have been taken or are planned in implementing the recommendations of the Board of Auditors for the biennium 1996-1997, as contained in document DP/FPA/2000/4.

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Follow-up to the Report of the United Nations Board of Auditors to the General Assembly on the Accounts of the United Nations Population Fund for the Biennium Ended 31 December 1997

Recommendations	Follow-up Action/Responsibilities	Time Frame /Comments
Recommendations for the 1996-1997 biennium		
Financial procedures		
1. Show the value of contributions-in-kind in a note to the financial statements.	The Chief, Finance Branch, is examining the requirements for collecting information on contributions-in-kind, assigning a value to such contributions and reporting on this information.	In accordance with the recommendations of the Advisory Committee on Administrative and Budgetary Questions in document A/53/513, UNFPA will await the review of the United Nations Accounting Standards by the Consultative Committee on Administrative Questions (CCAQ) as they pertain to disclosure of the value of the contributions-in-kind. Meanwhile, the UNFPA Finance Branch plans to disclose the value of contributions-in-kind in a note to the financial statements for the 1998-1999 biennium.
2. Establish procedures for accurately recording non-expendable project equipment held by Governments and NGOs and disclose the value of the inventory in a note to the financial statements.	UNFPA is stressing the importance of accurate record keeping in the revised administrative and programming section of the Policies and Procedures Manual. Although the responsibility for adequate record keeping lies primarily with executing agencies, it is the responsibility of the country offices to ensure compliance with the reporting requirements and to provide the Geographical Divisions at headquarters with all of the relevant financial reports. The	Procedures for collection, valuation and reporting for non-expendable project equipment are already in place. The accuracy and completeness of the information, however, depends primarily on the assistance of the country offices in reviewing the information submitted by Governments and NGOs. To ensure follow-up action, DFAMIS will be liaising this year with the Geographical Divisions and the country offices, to obtain the value of non-expendable equipment and plans to disclose this information in a note to the next

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Recommendations	Follow-up Action/Responsibilities	Time Frame /Comments
	Director, Division for Finance, Administration and Management Information Services (DFAMIS), will monitor the overall compliance of all parties to these procedures. A year-end circular will be issued again to the country offices and the Geographical Divisions reiterating the reporting requirements.	biennial financial statement. To optimize the accuracy of recording, the timing of the vesting of ownership of equipment will be reviewed.
3. Amend the financial regulations to require exchange losses, other than those arising from voluntary contributions, to be charged as expenditure, in line with the practice adopted by United Nations Headquarters.	The Chief, Finance Branch, is drafting the necessary revisions to UNFPA financial regulations and rules. In addition, the Chief will liaise with UNDP to determine what is required to be able to segregate exchange losses according to the source of the loss.	UNFPA has proposed revisions to financial rules 104.3 and 116.1 which will be communicated to the Executive Board in accordance with Regulation 14.1(a). UNFPA plans to reflect the revised treatment of exchange gains and losses from the 1998-1999 financial statements onwards.
4. Take action to recover overdue travel advances, including, where appropriate, recovery action from salary where travel claims have not been submitted within two weeks of actual travel, as required under UNFPA regulations.	The Chief, Procurement and Administrative Branch, is monitoring travel advances and will decide on recovery of overdue travel advances in cases where travel claims have not been submitted within two weeks upon return from actual travel. No further missions will be approved by the Deputy Executive Director prior to submission of claims for previous travels.	UNFPA has taken the necessary steps to clear the majority of outstanding advances, including taking action on writing off any advances where the prospects of recovery is dim. UNDP is currently focusing on the implementation of the Integrated Management Information System (IMIS) release 3; therefore, most of the outstanding advances are pending UNDP final action. The IMIS release 4, which is now under implementation, includes a link to the payroll system for the automatic recovery feature already included in release 3. Thus, whilst the action for recovery will be undertaken after two weeks of non-submission of travel claims, the actual recovery through IMIS payroll deduction may de facto need up to 60 days from the date travel is completed.

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Recommendations	Follow-up Action/Responsibilities	Time Frame /Comments
Management issues **A. Cash management**		
5. Expedite the receipt of outstanding disbursement reports in respect of Government- and NGO-executed projects.	Strict requirements regarding the conditions for paying and controlling advances are set forth in the Finance Manual. UNFPA Representatives and programme managers at headquarters are responsible for ensuring that these procedures are implemented. The Director, DFAMIS, will monitor the implementation of the procedures. A database is being developed to facilitate monitoring.	Beginning with the 1999 financial year, the Finance Branch will provide the Executive Committee with an annual list of offices which are deficient in compliance with UNFPA financial regulations, rules and procedures as they relate to the timely receipt of disbursement reports and the provision of advances to executing agencies. Based on the Executive Director's memo dated 29 January 1999, on personal accountability, appropriate action will be taken.
6. Adhere strictly to the Finance Manual provision that advances should not be made while disbursement reports are outstanding and any advances allowed should be limited to no more than one quarter's estimated expenditure.	UNFPA Representatives and programme managers at headquarters are responsible for ensuring adherence to these procedures. The Director, DFAMIS, will use the database to monitor adherence to procedures.	In November 1998, the Executive Director issued a circular on the audit findings, instructing Representatives to adhere to rules and procedures and to take appropriate follow-up actions. An additional circular was issued in January 1999, emphasizing financial rule 103.2 regarding personal accountability. As stated above, the Finance Branch will prepare an annual list of those country offices that are deficient with regard to compliance with UNFPA financial regulations, rules and procedures, especially as they relate to the provision of advances to executing agencies.
7. Require Governments and NGOs, where practicable, to establish a separate bank account for each project to facilitate the pay-over to UNFPA of any interest earned on project funds.	The UNFPA Finance Manual currently states that Governments should maintain a separate project bank account and include a bank information sheet to be completed for each project. UNFPA through its Representatives will continue efforts to recover any interest earned on project funds.	In most cases separate bank accounts are established. Training and monitoring missions include the monitoring of adherence to this procedure. The cases where separate accounts are not opened are primarily due to national

Recommendations	Follow-up Action/Responsibilities	Time Frame /Comments
		legislation or infrastructural limitations in the country.
8. Routinely review inactive projects and close them if appropriate.	The Director, DFAMIS, issued a circular in July 1997 clarifying the procedures to be followed in identifying and closing completed projects. In addition, the Finance Manual has been revised to provide clear guidelines on project closure. It is the responsibility of the UNFPA Representative, the head of the concerned division at headquarters and the relevant executing agencies to review project status on an ongoing basis to determine whether action needs to be taken to close an inactive project. Programme managers with the support of the Chief of the Finance Branch are monitoring the process of project closure.	Substantial progress has been made with regard to project closure. Nearly 1,800 projects have been identified as operationally complete and subsequently financially closed. DFAMIS has developed a procedure to draw the attention of the Geographical Divisions, Technical and Policy Division and the Information and External Relations Division to projects that have remained inactive for three years, so that the respective divisions can follow-up and determine whether they are operationally complete for subsequent closure, as required. In September 1999, as a result of the new procedures, DFAMIS identified some 300 projects as inactive and requested the appropriate divisions to take the necessary actions. Project closure is now a regular feature of internal audits and Policy Application Reviews.
B. Property management *9. Negotiate with Governments to either provide free premises or make a contribution towards accommodation costs.*	The Fund's strategy in this area is reflected in the active participation of the Chief, Procurement and Administrative Branch, DFAMIS, in the United Nations Development Group-Sub-Group on Common Premises and Services (UNDG-SGCPS). In this respect, all UNDG partner agencies are adhering to the Secretary-General's directive to move towards common premises and the establishment of United Nations Houses. Consequently, the methodology and strategy	As an active participant in the UNDG-SGCPS, UNFPA ensures that it retains an equal voice in policy formulation and strives to ensure that the proposals of the UNDG-SGCPS take into account and maximize efficiency, as well as cost-effectiveness. The issue of cost-free premises is being actively pursued in the SGCPS and the Management Group on Services and Premises (MGSP) fora. A common strategy and policy is currently being investigated. A conference room paper prepared by the UNDG-SGCPS was

Recommendations	Follow-up Action/Responsibilities	Time Frame /Comments
	applied to achieve this are common to the UNDG agencies. The Board of Auditors recommendation is accepted by UNFPA. In addition to UNDG-SGCPS efforts in this area, UNFPA Representatives will be requested to inquire from host Governments about the possibility of extending the UNDP Government Local Operating Costs (GLOC) contribution or similar arrangements to UNFPA offices where such arrangements do not already exist.	presented to the Executive Board in a joint UNDP/UNFPA segment at the second regular session in 1999. In pursuing the Secretary-General's directive to move toward the establishment of United Nations Houses in the field, the United Nations Resident Coordinators have been instructed to pursue the possibility of free or subsidized office premises for UNDG agencies. During the evaluation process for all United Nations House and common premises proposals, the UNDG-SGCPS investigates that as the most desirable modality in attaining the objectives of the United Nations House Programme. In some cases common premises may lead to cost increases for UNFPA.
10. Establish standards and guidelines for premises-related expenditure.	UNFPA accepts the recommendation and has requested that this issue be added to the agenda of the UNDG-SGCPS. The Chief, Procurement and Administrative Branch, and the Chief, Finance Branch, will then develop guidelines, as required, based on the UNDG-SGCPS recommendations.	UNFPA, wherever possible, attempts to ensure that countries specifically targeted for in-depth review and premises-assessment missions are those countries that exhibit high rental and/or high operational costs for UNFPA. While recognizing the difficulty to find appropriate indicators, it should be noted that utilizing an average rental cost per staff member as a means of comparison might be misleading. The Administration is currently considering the development of more appropriate indicators such as costs as a percentage of the office budget or a comparison of square-footage costs in the particular geographical area.
11. Ensure that the standard common services agreement incorporates performance targets and service standards.	UNFPA concurs with the Auditors' observations and the recommendation on this issue. In this context, it should be noted that in response to a UNDP/UNDG Office paper providing guidelines	At the UNDG Management Group on Services and Premises meeting of 12 August 1998, UNFPA again emphasized that it was essential to include relevant narrative text on the subject in the

Recommendations	Follow-up Action/Responsibilities	Time Frame /Comments
	and policy on common services, commissioned by the Consultative Committee on Programme and Operational Questions (CCPOQ), UNFPA was the sole UNDG agency to request, in writing, that the paper be revised, inter alia, to include criteria to evaluate the quality and cost-effectiveness of services provided by partner United Nations agencies and to include the principle of the accountability of service providers to service recipients. The Director, DFAMIS, will monitor overall compliance with agreed performance standards.	pending CCPOQ guidelines. This point was accepted by the other UNDG agencies present (UNDP, UNICEF and WFP). The CCPOQ guidelines were revised accordingly and were endorsed by CCPOQ in October 1998. During the past twelve months the UNDG agencies, under the UNDG-SGCPS, have conducted a comprehensive survey concerning common services. The survey concerned, inter-alia, attempts to quantify the satisfaction level of existing common services provided and received within country offices. The survey also attempts to identify how the services may be improved. The results of this survey will be available by the end of 1999. During the first quarter of 2000 a UNDG workshop will be organized to develop practical guidelines on how common services can be more effectively implemented. The principle of accountability and the incorporation of performance standards will be emphasized at the exercise.
C. Human resource management		
12. Undertake a comprehensive staff review, including an examination of the relationship between headquarters and country offices, to: - *ensure appropriate balance between decentralization and control, and* - *determine accurately the number of professional and support staff needed.*	UNFPA concurs with the observations and recommendations. These are being addressed through a workforce planning exercise organized by the Chief, Office of Personnel and Training, which will: -review job content and redesign functions of posts, as necessary; -develop accurate workload measures specific to the full range of work undertaken; and establish	The first phase of the workforce planning exercise has been concluded. It consisted of a baseline post assessment involving headquarters, Country Support Teams and selected country offices. The findings of the assessment were discussed with the Executive Committee in August 1999. In November 1999, a staff retreat to discuss organizational structure and programme priorities was held. Further follow-up action is under way

Recommendations	Follow-up Action/Responsibilities	Time Frame /Comments
	workload benchmarks to optimize staff resources.	and pilot workforce changes will be implemented and assessed. The organization-wide application is expected to begin in June 2000. Staff is being continuously updated on the exercise through circulars and briefings.
13. Undertake a field capacity study to assess whether country offices are appropriately staffed.	The results of the workforce planning exercise will facilitate assessing the appropriate staffing of country offices. The responsibility for the exercise lies with the Chief, Office of Personnel and Training.	The workforce planning exercise will also enable senior management to adequately define the role and responsibilities of country office staff in the context of decentralized approval authority and programme implementation. This also needs to be seen in the context of national capacity building and national execution, particularly how the country offices should be endowed to assist Governments and NGOs to achieve self-reliance. Since this is of concern to the United Nations system as a whole, at the initiative of UNFPA, the UNDG Sub-Group on Programme Operations is discussing joint operational recommendations.
Year 2000 issue		
14. The Board of Auditors recommends that UNFPA should ensure that all systems are tested for year 2000 (Y2K) compliance, with sufficient lead time to address any deficiencies.	The Chief, MIS Branch, has been appointed as focal point for Y2K issues. UNFPA did a survey on all systems during 1998 and 1999 and found most of them Y2K compliant. Those systems, which were not initially Y2K compliant, have been made compliant. UNFPA uses IMIS as the only external system, and it is reported to be Y2K compliant.	UNFPA is actively involved in the interagency working group on Information Technology Systems. For country offices, UNFPA relies on the recommendation of the United Nations Security Coordination (UNSECORD) and UNDP. The Joint Inspection Unit findings indicate that, in general, UNFPA is well prepared for Y2K.